

RJREYNOLDS

Tobacco Company

November 5, 1996

Dennis R. Bellinger
Key Account Manager

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	Sales	Retail
1221		1222 21, 23
1222		1223 20, 21, 22, 23, 24, 25, 26, 27, 28, 29
1223		1226 24, 26, 27
1224		1229 29, 30
1225		ROM
1226		PC SC
1229		MC PA
1240		
1244		RSM RBM

TO: ROU 1110	ROU 2310	ROU 6310
ROU 1210	ROU 2610	ROU 6610
ROU 1310	ROU 2910	ROU 6710
ROU 1610	ROU 5110	ROU 6910
ROU 1710	ROU 5410	
ROU 1810	ROU 5610	
ROU 2110	ROU 5810	
ROU 2210	ROU 6210	

**PLEASE DISTRIBUTE TO ALL RJR RETAIL MANAGERS FOR ACTION AND
RJR RETAIL REPS AS INFORMATION WHO HAVE K-MART/SUPER K
ACCOUNTABILITIES (CHAIN ID #0002-00-00 AND #0002-01-00).**

RE: K-MART/SUPER K RESETS

Ladies and Gentlemen:

As you were informed in Jack Geeting's October 9 letter, the cigarette department in most of the Kmart/Super K stores is being reset during the period October 21 through December 31, 1996. Due to the complexities associated with this program, I felt it necessary to provide additional information relative to the reset and the assistance required from RJR personnel. Details are as follows:

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Program Description

Although there will be some variances, listed below is a description of the standard Kmart/Super K set under the new program.

- ♦ Kmart's will be featuring cartons on self-service utilizing gondola shelving at a checklane position. A Philip Morris three-sided package fixture will be placed immediately adjacent to the cartons. RJR will maintain approximately 27% of the space on both fixtures. In addition, a Philip Morris promotional unit will be utilized as part of the carton configuration. RJR will maintain the third and fourth shelf on this merchandiser exclusively for RJR promotions. The RJR PFD unit will be removed.
- ♦ In the Super K's the RJR carton fixtures and UPM's will be replaced with Philip Morris merchandisers. RJR will once again maintain approximately 27% of the space on these racks. As information, we have been reimbursed for the checklane displays which were installed during October 1995, and these fixtures will remain on location utilized exclusively by Philip Morris.
- ♦ It should be noted that in the Super K's and in any Kmart which does not feature the permanent PM promotional unit, RJR will have the capability to utilize temporary displays in conjunction with our promotions effective sometime during first quarter 1997.

Brand Mix/Plan-O-Graming

Kmart has made a decision to dramatically reduce the number of SKU's to a maximum of 165 and in some instances as low as 120. The brand mix will vary by store and is based on the following:

- ♦ All stores have been grouped into six distinct clusters which are based on demographics and brand potential. Each of these clusters is then subdivided into thirteen additional groups based on store configuration and volume.
- ♦ Attached is a description of the thirteen different store layout scenarios showing the size of the fixture to be utilized and the total number of RJR brands authorized for that setup.
- ♦ There are a total of 78 plan-o-grams (13 times 6) available for the Kmart stores which clearly indicate brand by brand positioning for both carton and package merchandisers. We are, however, in the process of revising the RJR portion of these plan-o-grams, and we anticipate having these available in your ROU's by the end of November.

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Assistance Needed From RJR Personnel

Although the amount of space dedicated to RJR brands is very specific on each of the 78 plan-o-grams, the actual selection of those brands to be carried is being left up to RJR and store personnel based on brand opportunity for that geographical area. We are, therefore, requesting that each and every Kmart/Super K store be contacted by a retail manager as soon as possible following the scheduled reset date in order to accomplish the following:

- ♦ The RJR retail manager should meet with Kmart store personnel in order to determine the appropriate RJR brand mix for that location based on brand opportunity. Please keep in mind, however, that one of our primary objectives will be to maintain distribution on all eight styles of Best Value due to the upcoming pricing change which will offer this brand a significant pricing advantage over other mid price products. We do anticipate growth on Best Value during 1997. Please bear in mind that you cannot exceed the total number of RJR brands carried as previously discussed on Attachment I.
- ♦ Remerchandise and tag both carton and package merchandisers based on the agreed to brand selection. It is my understanding that if new items are to be placed into distribution you simply need to tag a spot for that brand on both the carton and package fixtures, and they will be ordered by the Kmart tobacco distributor (KTD). I will inform you as to how we will be handling future new brand introductions.
- ♦ Obviously, if you are adding brands into distribution, you will probably also be discontinuing some RJR items in order to remain within the limits of the distribution guidelines. Therefore, you should work with the Kmart store personnel in order to pack up any items which need to be returned to the KTD's. Attached is an authorization letter from Bill Burgess offering RJR the ability to adjust the brand styles and remerchandise the fixtures as needed.

Miscellaneous

- ♦ It should be noted that there have been several changes in the reset schedule to date. It is our understanding that most of the stores will still be completed prior to year end with any remaining resets to be handled during first quarter 1997. As you were informed earlier, your ROU has a reset schedule should you need to secure future dates. My recommendation is that you stay in contact with each of your stores in order that they may keep you informed of the current situation.
- ♦ As you were previously informed by Jack Geeting, all RJR fixtures will be destroyed at the time of the reset unless prior arrangements have been made by RJR personnel with store management. Please keep this in mind for any stores which have new RJR fixtures, etc.

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Page 4
11/5/96

As always, your assistance in handling these matters is appreciated. Please feel free to contact either myself or Maureen Shannon at (810) 475-5602 should you have any concerns or questions.

Sincerely,

Dennis

Dennis R. Bellinger

Attachments

cc: Jack Geeting
DRB/jmf

KMARTLTR.DOC

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ATTACHMENT I

	<u>Store Layout/Fixture Configuration</u>	<u># of RJR Brands Authorized</u>
A.	5' Checkout With Bargain Table 1 - 200 SL Pack Merchandiser	49
B.	2.5' Checkout With Bargain Table 1 - 200 SL Pack Merchandiser	23
C.	5' Checkout Without Bargain Table 1 - 160 SL Pack Merchandiser	49
D.	2.5' Checkout Without Bargain Table 1 - 160 SL Pack Merchandiser	23
E.	Super K - High Volume 4 - 4' Carton Fixture 2 - 200 SL Pack Fixture	53
F.	Super K - Average Volume 3 - 4' Carton Fixture 2 - 200 SL Pack Fixture	53
G.	Super K - High Volume - Security 4 - 4' Carton Fixture 2 - 200 SL Pack Fixture	53
H.	Super K - Average Volume - Security 4 - 4' Carton Fixture 2 - 200 SL Pack Fixture	53
I.	Legislated Non Self-Service 2 - 4' Carton Fixture 1 - 220 SL Pack Merchandiser	42
J.	Convenience Sets - Legislated Non Self-Service 2 - 5' Gondola NSS 1 - 160 SL Pack Merchandiser	49
K.	Piggy Back With Bargain Table 2 - 4' Carton Fixture 1 - 200 SL Pack Merchandiser	41
L.	Piggy Pack Without Bargain Table 2 - 4' Carton Fixture 1 - 160 SL Pack Merchandiser	37
M.	Convenience Set - Legislated Non Self-Service 2 - 5' Gondola 1 - 160 SL Pack Merchandiser	47

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